



Treasury Inspector General for Tax Administration

THE EMPLOYER'S ANNUAL FEDERAL TAX RETURN (FORM 944) PROGRAM WAS EFFECTIVELY PLANNED AND IMPLEMENTED, BUT FEWER RETURNS THAN ANTICIPATED WERE FILED

Issued on September 17, 2007

Highlights

Highlights of Report Number: 2007-30-182 to the Internal Revenue Service Deputy Commissioners for Operations Support and Services and Enforcement.

IMPACT ON TAXPAYERS

In 2006, the Internal Revenue Service (IRS) introduced Employer's ANNUAL Federal Tax Return (Form 944) to allow certain employers to file their employment tax returns annually and pay the taxes due with their returns. The IRS' goals for the new Form 944 Program are to reduce taxpayer burden for eligible employers that would normally file Employer's QUARTERLY Federal Tax Return(s) (Form 941) with little or no employment taxes due and to maintain and possibly improve current filing and payment compliance levels. The IRS estimated about 1 million taxpayers would be eligible to file Forms 944, which would save approximately 46.2 million hours of burden for taxpayers and representatives and save more than \$4.1 million in IRS operating costs.

WHY TIGTA DID THE AUDIT

This audit was part of our discretionary audit coverage of the Small Business/Self-Employed Division and was included in the TIGTA Fiscal Year 2007 Annual Audit Plan. The overall objective of this review was to determine whether the IRS adequately prepared to process Forms 944 during the 2007 Filing Season and to evaluate the effectiveness of processing activities.

WHAT TIGTA FOUND

The IRS took appropriate actions to plan and implement new Form 944 for the 2007 Filing Season. It identified and notified the taxpayers eligible to file a Form 944 and mailed nearly 517,000 tax packages to them in December 2006. It also established procedures to inform new taxpayers of the filing requirements when applying for an Employer Identification Number. The IRS computers were updated, programmed, and tested to process Forms 944. In addition, the IRS ensured tax

examiners were adequately trained on the new filing requirements to address taxpayers' inquiries and questions.

While the Project Office effectively planned and implemented the Form 944 Program, the IRS did not receive the anticipated volume of returns. It had estimated about 1 million taxpayers would be eligible to file Forms 944. However, as of June 1, 2007, the IRS had received only about 326,000 of these Forms. Prior to implementing the Form 944 Program in 2006, the IRS changed the Program requirements (in 2005) by reducing the employment tax liability amount from \$2,500 to \$1,000 and no longer requiring taxpayers to have filed 8 consecutive quarters of Forms 941. Adjusting the eligibility requirements increased the number of taxpayers eligible to file a Form 944 from 350,598 to 1,152,510. However, without using taxpayers' filing histories, it is difficult for the IRS to accurately estimate the number of taxpayers that will file a Form 944 each year, especially when these taxpayers may not have employment tax liabilities every year.

By September 2007, the Program Office needs to determine whether the Form 944 Program should continue as developed, continue with modifications such as changing the eligibility limit, or be discontinued after Tax Year 2008. Although TIGTA made no recommendations, the IRS might consider the following in its evaluation effort:

- Obtain more information on the target population to assist in Program adjustments.
- Capture actual costs for evaluating Program results and future actions.
- Contact stakeholders to obtain other opinions on the success of the Form 944 Program.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730182fr.pdf>.

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